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C O N F I D E N T I A L SECTION 1 OF 8 LUXEMBOURG 0213

E. O. 11652: GDS

TAGS: PFOR, LU

SUBJECT: ANNUAL POLICY ASSESSMENT

PART 1: U. S. INTERESTS AND BASIC POLICY OBJECTIVES

1. POLITICAL: SINCE JUNE 1974, LUXEMBOURG HAS BEEN GOVERNED BY A DEMOCRATIC-SOCIALIST COALITION UNDER THE LEADERSHIP OF PRIME MINISTER/FOREIGN MINISTER GASTON THORN. IN THE WAKE OF
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THORN'S INTERNATIONAL ACTIVITIES, HIS PERSONAL POPULARITY

AND POLITICAL PRESTIGE IN LUXEMBOURG ARE AT AN ALL TIME HIGH (SEE LUXEMBOURG 0130). WHILE FAR AND AWAY THE DOMINANT POLITICAL FIGURE IN GOVERNMENT COALITION, HE CANNOT IGNORE SOCIALIST VIEWS ON DOMESTIC AND FOREIGN ISSUES. THORN IS WELL DISPOSED TOWARDS THE U. S. IN MULTINATIONAL ORGANIZATIONS HE CAN BE A SKILLFUL ADVOCATE OF U. S. POSITIONS AND POLICIES WITH WHICH HE AGREES. U. S. POLITICAL OBJECTIVES, THEREFORE, ARE: (A) TO MAINTAIN CLOSE PERSONAL RELATIONS WITH THORN AND INCREASE HIS EXPOSURE TO HIGH RANKING AMERICAN OFFICIALS; (B) TO IMPROVE RELATIONS WITH THORN'S SOCIALIST PARTNERS, INCLUDING TRADE UNION LEADERS, AND ENCOURAGE THEM TO ADOPT MODERATE POSITIONS ON ECONOMIC ISSUES AND AN INTERNATIONAL OUTLOOK FAVORABLE TO U. S. FOREIGN POLICY OBJECTIVES; (C) TO STAY IN TOUCH WITH THE LEADERS OF THE CONSERVATIVE OPPOSITION CHRISTIAN-SOCIAL PARTY, WHICH REMAINS NUMERICALLY THE LARGEST PARTY IN LUXEMBOURG.

2. FOREIGN POLICY: LUXEMBOURG IS A CHARTER MEMBER OF THE EUROPEAN ECONOMIC COMMUNITY AND NATO, AND PRIME MINISTER THORN IS CURRENTLY PRESIDENT OF THE 30TH UNGA. LUXEMBOURG IS ALSO A MEMBER OF THE OECD, IEA, IEA (AND CIEC), GATT, THE IMF AND THE IBRD. BECAUSE OF THORN'S INTELLIGENCE, FORCE OF PERSONALITY AND STATESMANSHIP, LUXEMBOURG TODAY EXERCISES INFLUENCE IN MULTINATIONAL ORGANIZATIONS, PARTICULARLY THE EEC, GREATER THAN ITS SIZE OR STRATEGIC IMPORTANCE WOULD WARRANT. OUR BASIC FOREIGN POLICY OBJECTIVES ARE: (A) TO ASSURE AN IN DEPTH EXCHANGE OF VIEWS WITH THORN AND HIS GOVERNMENT ON ISSUES OF INTEREST TO THE UNITED STATES; (B) TO INFLUENCE THE GOL TO SUPPORT AND, IF POSSIBLE, ADVOCATE U. S. POSITIONS IN MULTINATIONAL FORA.

3. SECURITY: LUXEMBOURG'S CONTRIBUTION TO WESTERN SECURITY THROUGH ITS PARTICIPATION IN NATO IS OBVIOUSLY LIMITED BY ITS SIZE AND THE MEAGER RESOURCES IT CAN CONTRIBUTE TO DEFENSE. NONETHELESS, THE U. S. HAS A SOLID INTEREST IN LUXEMBOURG'S FULL, ACTIVE MEMBERSHIP IN THE ALLIANCE. BECAUSE OF HIS GOOD RELATIONS WITH BOTH GISCARD D'ESTAING AND HELMUT SCHMIDT, THORN COULD HAVE SOME MARGINAL, BUT CONCEIVABLY AT TIMES USEFUL, INFLUENCE ON OUR MAJOR ALLIANCE PARTNERS' DEFENSE POLICIES. MOREOVER, LUXEMBOURG'S
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PARTICIPATION IN NATO PROJECTS AND PROGRAMS IS IMPORTANT IN MAINTAINING THE IMAGE OF NATO AS AN INCLUSIVE ALLIANCE OF THE WESTERN DEMOCRACIES. OUR OBJECTIVES: (A) TO URGE THE GOL TO MAINTAIN ITS STRONG AFFILIATION WITH NATO; (B) TO ENCOURAGE THE GOVERNMENT TO DEVOTE A GREATER PERCENTAGE OF ITS BUDGET TO DEFENSE; (C) TO ENCOURAGE LUXEMBOURG'S PARTICIPATION IN ALLIANCE PROJECTS, SUCH AS AWACS, AND ITS SUPPORT FOR BROADER ALLIANCE PROGRAMS, SUCH AS INTER-

OPERABILITY AND STANDARDIZATION; (D) TO ENCOURAGE THE GOVERNMENT TO MAINTAIN AND STRENGTHEN ITS INTELLIGENCE SERVICE IN ORDER TO SAFEGUARD NATO SECURITY INTERESTS IN LUXEMBOURG.

4. ECONOMIC: THE INVESTMENT OF OVER \$350 MILLION BY U.S. FIRMS IN LUXEMBOURG REPRESENTS THE HIGHEST PER CAPITA AMERICAN PRIVATE INVESTMENT IN ANY FOREIGN COUNTRY. SEVERAL MULTINATIONALS, INCLUDING GOODYEAR, MONSANTO AND DUPONT, HAVE SUBSIDIARIES HERE, AND THERE ARE A NUMBER OF OTHER SMALLER AMERICAN INDUSTRIES. MOST OF THE FIRMS CAME TO LUXEMBOURG TO ESTABLISH MANUFACTURING CENTERS WITHIN THE COMMON MARKET DURING THE 1960'S, WHEN THE GOL OFFERED INCENTIVES TO FOREIGN INVESTORS AS A MEANS OF DIVERSIFYING LUXEMBOURG'S ECONOMY. THERE ARE ALSO SEVENTEEN AMERICAN BANKS AMONG THE EIGHTY-FOUR FOREIGN BANKS WHICH COMPRISE LUXEMBOURG'S IMPORTANT FINANCIAL CENTER. TODAY LUXEMBOURG IS SECOND ONLY TO LONDON AS A EURODOLLAR MARKET AND IS THE NUMBER ONE EURO-DMARK CENTER. AS NOTED ABOVE, LUXEMBOURG IS ACTIVE IN ALL THE MAJOR INTERNATIONAL ECONOMIC ORGANIZATIONS AND BECAUSE OF ITS EEC PRESIDENCY CURRENTLY PLAYS A SPECIAL ROLE IN THE CIEC, THE MTN, AND EC-COMECON RELATIONS. MAJOR U.S. ECONOMIC OBJECTIVES ARE: (A) TO ASSIST AMERICAN INDUSTRIES AND BANKS IN DEVELOPING AND MAINTAINING FRUITFUL RELATIONS WITH THE LUXEMBOURG GOVERNMENT, PARTICULARLY IN REGARD TO LABOR RELATIONS AND SOCIAL LEGISLATION; (B) TO EXPOSE U.S. PRODUCTS IN LUXEMBOURG AND TO ENCOURAGE THEIR SALE; (C) TO KEEP THE GOL CHANNEL TO MULTINATIONAL ECONOMIC ORGANIZATIONS OPEN AND THE GOL RECEPTIVE TO U.S. POSITIONS ON INTERNATIONAL ECONOMIC ISSUES.

5. PUBLIC AFFAIRS: MEMORIES OF THE SECOND WORLD WAR,
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C O N F I D E N T I A L SECTION 2 OF 8 LUXEMBOURG 0213

CLOSE TIES WITH THE RELATIVELY LARGE COMMUNITY OF EX-LUXEMBOURGERS IN THE UNITED STATES, AND THE PERVASIVE ANTI-COMMUNISM OF THIS CATHOLIC COUNTRY COMBINE TO MAKE LUXEMBOURG'S TIES WITH THE U.S. AS STRONG AS THOSE OF ANY NATION IN WESTERN EUROPE. FROM THE WORLD WAR II RECONSTRUCTION DAYS TO THE PRESENT TIME, LUXEMBOURG LEADERS HAVE CHAMPIONED THE CONCEPT OF A UNITED EUROPE IN CLOSE ALLIANCE WITH THE U.S. HOWEVER, THE GENERATION NOW TAKING OVER FROM THE IMMEDIATE POST-WAR
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LEADERS IS MORE EUROPEAN AND LESS ATLANTIC IN OUTLOOK. VIET NAM, WATERGATE, ANGOLA AND DETENTE CAUSE QUESTIONS TO BE RAISED ABOUT THE UNITED STATES' ABILITY OR WILLINGNESS TO ASSURE EUROPE'S SECURITY AND ABOUT THE VERY NEED FOR SUCH ASSURANCES IN AN ATMOSPHERE OF RELAXED TENSIONS WITH THE USSR. IN LUXEMBOURG, THE SOVIET EMBASSY HAS BEEN ACTIVE AND TO SOME DEGREE SUCCESSFUL IN PRESENTING THE USSR'S "NEW LOOK" THROUGH CULTURAL AND PUBLIC RELATIONS PROGRAMS. TO ADVANCE ALL

OF THE INTERESTS MENTIONED IN THIS SECTION, THE UNITED STATES HAS A COROLLARY INTEREST IN STEMMING THIS CURRENT DRIFT OF PUBLIC OPINION AND ASSURING THAT LUXEMBOURGERS DO NOT LOSE THEIR SENSE OF CULTURAL AND POLITICAL IDENTITY WITH THE UNITED STATES. OUR PRIMARY OBJECTIVE IS TO KEEP BEFORE THE PUBLIC THE IMAGE OF A STRONG, CULTURALLY DIVERSE BUT CREATIVE UNITED STATES, DEEPLY COMMITTED TO PARTNERSHIP WITH WESTERN EUROPE BASED ON COMMON POLITICAL, ECONOMIC AND SECURITY INTERESTS.

6. OTHER INTERESTS AND OBJECTIVES: LUXEMBOURG'S SIZE AND LIMITED RESOURCES CREATE PARTICULAR DIFFICULTIES FOR THE GOL IN DISCHARGING SOME OF ITS RESPONSIBILITIES AS A SOVEREIGN STATE. FOR EXAMPLE, THE PHENOMENAL RECENT GROWTH OF THE LUXEMBOURG FINANCIAL PLACE PRESENTED A MAJOR CHALLENGE TO THE GOL BANKING COMMISSIONER'S ABILITY TO SUPERVISE AND REGULATE INTERNATIONAL FINANCIAL OPERATIONS. THE INCREASE FROM A FEW PROFESSIONALS TO A STAFF OF FORTY SHOWS THE COMMISSIONER'S DETERMINATION TO EXERCISE EFFECTIVE CONTROL. IN ANOTHER SECTOR, THE GOVERNMENT IS HARD PUT TO DENY THE USE OF ITS AIRPORT AND TERRITORY TO INTERNATIONAL DRUG SMUGGLING WITH AN UNDERMANED CUSTOMS SERVICE. ALTHOUGH LUXEMBOURG HAS SO FAR BEEN SPARED ANY SUCCESSFUL TERRORIST OPERATIONS, IT IS CLEAR THAT DIPLOMATS, GOVERNMENT OFFICIALS AND OTHERS ARE VULNERABLE TO TERRORIST ATTACK BECAUSE OF THE COUNTRY'S OPEN BORDERS AND NEGLIGIBLE POLICE CAPABILITIES. THE OBVIOUS U.S. INTEREST IN THESE AREAS IS THAT LUXEMBOURG NOT BECOME AN INTERNATIONAL "WEAK LINK," ATTRACTING TRAFFIC SEEKING TO AVOID MORE STRINGENT SECURITY ELSEWHERE. THE U.S. OBJECTIVE IS TO ENCOURAGE LUXEMBOURG TO DEVOTE ADEQUATE FINANCIAL AND MANPOWER RESOURCES TO PREVENT THE FLAGRANT ABUSE OF ITS CONFIDENTIAL

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SOVEREIGNTY. A KEY TO THE UNDERMANNING OF LUXEMBOURG'S SECURITY FORCES IS THE REQUIREMENT THAT ALL THEIR PERSONNEL BE VETERANS OF THE COUNTRY'S TINY ARMY, CUTTING DOWN TRAINING COSTS BUT CREATING A PERSONNEL BOTTLENECK. VARIOUS PROPOSALS TO ALLEVIATE THIS HAVE BEEN MADE INCLUDING EXPANSION OF THE ARMY'S SIZE AND REDUCTION OF THE REQUIRED LENGTH OF SERVICE.

PART II: ADVANCEMENT OF U.S. INTERESTS OVER THE PAST YEAR

7. POLITICAL

A. RELATIONS WITH PRIME MINISTER THORN: 1975-1976 WAS A BANNER YEAR FOR HIGH-LEVEL CONTACTS WITH PRIME MINISTER THORN. IN LATE MAY 1975, THORN HAD A BREAKFAST MEETING IN BRUSSELS

WITH PRESIDENT FORD AND SECRETARY KISSINGER. HE CAME AWAY IMPRESSED WITH THE PRESIDENT'S AND THE SECRETARY'S COMMITMENTS TO WESTERN EUROPE. THE PERSONAL RAPPORT BETWEEN THORN AND PRESIDENT FORD WAS FURTHER CEMENTED DURING THORN'S NOVEMBER WORKING VISIT TO THE WHITE HOUSE. AT THAT TIME THE PRIME MINISTER AND MRS. THORN ALSO LUNCHEDED WITH SECRETARY AND MRS. KISSINGER, THEREBY STRENGTHENING THORN'S RESPECT AND PERSONAL FRIENDSHIP FOR THE SECRETARY. DURING THE VISIT, THORN'S TOP FOREIGN POLICY ADVISORS MET ON SEVERAL OCCASIONS WITH ASSISTANT SECRETARY HARTMAN AND OTHER STATE DEPARTMENT OFFICIALS. THESE MEETINGS SET THE STAGE FOR A PRODUCTIVE DIALOGUE WITH THE EUROPEAN COMMUNITY DURING LUXEMBOURG'S CURRENT EEC PRESIDENCY. FINALLY, DURING THE VISIT, THORN AND HIS COLLEAGUES MET WITH A NUMBER OF RANKING AMERICAN OFFICIALS FROM BOTH THE EXECUTIVE AND LEGISLATIVE BRANCHES, AND THORN LEFT WASHINGTON WITH A CLEAR IMPRESSION THAT THE ADMINISTRATION ACCORDS HIM FULL STATUS AS AN INTERNATIONAL STATESMAN AND RECOGNIZES LUXEMBOURG'S IMPORTANCE AS AN ALLY.

B. RELATIONS WITH THE SOCIALISTS: THE EMBASSY HAS BEEN ACTIVE IN ESTABLISHING USEFUL CONTACTS WITH THORN'S SOCIALIST PARTNERS. DURING A SEPTEMBER 1975 VISIT TO WASHINGTON FOR AN IMF MEETING, SOCIALIST PARTY LEADER AND VICE-PRESIDENT/ FINANCE MINISTER RAYMOND FOUEL HAD A PRODUCTIVE MEETING WITH

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ASSISTANT SECRETARY HARTMAN TO REVIEW U.S.-EC ISSUES. THE EMBASSY HAS NOMINATED SOCIALIST LABOR MINISTER BERNARD GERG FOR AN IVP GRANT BEGINNING IN MID-MARCH OF THIS YEAR.

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PRIME MINISTER THORN HAS INDICATED HIS APPRECIATION FOR THIS ATTENTION TO HIS LABOR MINISTER ON SEVERAL OCCASIONS. THE VOUEL AND BERG VISITS ARE THE HIGHLIGHTS OF AN ONGOING SERIES OF EMBASSY LUNCHEES, DINNERS AND MEETINGS WITH SOCIALIST LEADERS. EVIDENCE THAT THESE CONTACTS ARE EFFECTIVE CAN BE SEEN IN A TURNABOUT IN JUSTICE MINISTER KRIEPS' ATTITUDE TOWARDS COOPERATION WITH U. S. OFFICIALS IN COMBATTING ILLEGAL DRUG TRAFFIC (SEE 1973 LUXEMBOURG 0631 AND 0770), AND ALSO TO SOME EXTENT IN A WARMING OF THE CONFIDENTIAL

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SOCIALISTS' ATTITUDE TOWARD AMERICAN INVESTMENT IN LUXEMBOURG.

C. CONTACT WITH CHRISTIAN-SOCIALIST LEADERS: THE AMBASSADOR AND EMBASSY OFFICERS HAVE BEEN IN FREQUENT CONTACT WITH CHRISTIAN-SOCIALIST LEADERS, PARTICULARLY THE FORMER PRIME MINISTER PIERRE WERNER. WERNER HAS BEEN HELPFUL IN ASSURING THAT THE CHRISTIAN-SOCIAL OPPOSITION WILL NOT PLAY POLITICS WITH THE REORGANIZATION OF LUXEMBOURG'S INTELLIGENCE SERVICE (SEE PARAGRAPH SIXTEEN BELOW).

8. FOREIGN POLICY

A. UNITED NATIONS: IN MID-1975, PRIME MINISTER THORN

ASKED FOR AND RECEIVED U. S. BACKING IN HIS BID TO BECOME PRESIDENT OF THE 30TH UNITED NATIONS GENERAL ASSEMBLY. THORN ALSO ASKED FOR BRIEFINGS TO HELP HIM PREPARE FOR THE JOB. THE RESULT WAS A 2-DAY VISIT HERE IN JUNE BY FORMER ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS WILLIAM BUFFUM. THORN LATER TOLD US THAT SECRETARY BUFFUM'S BRIEFINGS STOOD HIM IN GOOD STEAD THROUGHOUT THE 30TH UNGA. WE LEAVE TO THE DEPARTMENT AND USUN TO JUDGE WHETHER THORN'S PRESIDENCY WAS HELPFUL IN ADVANCING U. S. INTERESTS IN THE UNITED NATIONS CONTEXT, BUT WE NOTE THAT THORN WAS ONE OF THE FEW WESTERN STATESMEN WHO USED HIS POSITION TO CONDEMN FORCEFULLY THE ZIONISM-RACISM EQUATION.

B. EC PRESIDENCY: DURING THE INITIAL TWO MONTHS OF LUXEMBOURG'S EC PRESIDENCY, THORN AND HIS AIDES HAVE BEEN FORTHCOMING AND FRANK IN HANDLING U.S. -EC POLITICAL CONSULTATIONS. AT BOTH THE POLITICAL DIRECTOR AND FOREIGN MINISTER LEVELS, THE LUXEMBOURGERS HAVE TRIED TO ASSURE THAT U.S. POSITIONS ARE FULLY VETTED DURING COMMUNITY DELIBERATIONS. WE HAVE THE IMPRESSION THAT GOL OFFICIALS CHAIRING MEETINGS IN OTHER FORA DURING THE PRESIDENCY (FOR EXAMPLE, THE CIEC) HAVE BEEN RESPONSIVE IN CONSULTING AND COORDINATING WITH THEIR U. S. COUNTERPARTS.

9. SECURITY

A. PARTICIPATION IN THE REFORGER EXERCISES: FOLLOWING
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SUCCESSFUL LOC NEGOTIATIONS WITH LUXEMBOURG, THE GOL PARTICIPATED IN SEPTEMBER FOR THE FIRST TIME IN A NATO REFORGER EXERCISE. THIS BROUGHT SOME 180 AMERICAN TROOPS TO LUXEMBOURG'S INTERNATIONAL AIRPORT, FROM WHICH THEY PROCEEDED TO THEIR ASSEMBLY POINT IN THE FRG. AMERICAN MILITARY OBSERVERS CALLED THE OPERATION A SUCCESS AND WERE DELIGHTED WITH LUXEMBOURG'S EXCEPTIONAL HOSPITALITY TO THE AMERICAN TROOPS DURING THEIR BRIEF TRANSIT OF THE COUNTRY.

B. AWACS: LUXEMBOURG'S MINISTER OF PUBLIC FORCES HAS TOLD US HE IS PREPARED TO FIGHT DURING THE GOL BUDGET DEBATES FOR SOME LUXEMBOURG FINANCIAL PARTICIPATION IN AWACS IF EXPERT STUDIES NOW UNDER WAY CLEARLY DEMONSTRATE A NEED FOR THE PROGRAM AND ITS COST EFFECTIVENESS.

10. ECONOMIC

A. U. S. INVESTMENT: THE MAJOR PROBLEM FOR U. S. COMPANIES IN LUXEMBOURG DURING THE PAST YEAR WAS THE GENERAL ECONOMIC RECESSION. MOST OF THE U. S. FIRMS HAVE

PULLED THROUGH RELATIVELY WELL AND SEEM CONFIDENT THAT THE RECESSION'S IMPACT ON THEIR OPERATIONS HAS BOTTOMED OUT. A FACTOR OF INCREASING CONCERN FOR ALL OF THE FIRMS, AND ONE AGGRAVATED BY THE BUSINESS SLOWDOWN, WAS THE CONSIDERABLE INCREASE IN TOTAL LABOR COSTS IN 1974 AND 1975 STIMULATED BY RECENT SOCIAL BENEFIT LEGISLATION AND WAGE INDEXATION. LABOR-MANAGEMENT HARMONY AND HIGH WORKER PRODUCTIVITY STILL PROVIDE IMPORTANT ADVANTAGES IN LUXEMBOURG. HOWEVER, BECAUSE MOST COMPANIES ARE GEARED FOR EXPORT, THE 1975 INFLATION RATE OF 10.9 PERCENT IS NOT REASSURING IN COMPARISON WITH A 4.5 PERCENT RATE IN GERMANY, LUXEMBOURG'S MAJOR CUSTOMER. THERE IS CONCERN THAT LUXEMBOURG MAY BE PRICING ITSELF OUT OF THE MARKET. THE EMBASSY HAS COMMUNICATED THESE CONCERNS TO THE GOL ON NUMEROUS OCCASIONS. THE MINISTERS CONCERNED, FOR THE MOST PART SOCIALISTS, HAVE BEEN RECEPTIVE TO EMBASSY DEMARCHES AND ARE SENSITIVE TO THE IMPACT OF SOCIAL LEGISLATION ON AMERICAN INVESTMENT. IN FACT, THE JUDGMENT WITHIN THE AMERICAN BUSINESS COMMUNITY IS THAT THE

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SOCIALIST MINISTERS ARE MUCH MORE SYMPATHETIC TO BUSINESS CONCERNS AND ARE MORE MODERATE IN THEIR OVERALL ECONOMIC APPROACH THAN COULD HAVE BEEN HOPED FOR WHEN THE GOVERNING COALITION WAS FORMED IN 1974. DURING 1975, AMERICAN FIRMS, ALONG WITH ALL MAJOR INDUSTRIES IN LUXEMBOURG, IMPLEMENTED A GOVERNMENT-SPONSORED PROGRAM OF LABOR PARTICIPATION (CO-GESTION). AFTER SOME INITIAL SUSPECIONS, THE AMERICAN MULTINATIONALS HAVE UNDERTAKEN THIS WORKER-MANAGEMENT
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EXPERIMENT IN A POSITIVE SPIRIT AND SO FAR IT HAS SEEMED TO WORK WELL. EMBASSY OFFICERS HAVE MET ON SEVERAL OCCASIONS WITH AMERICAN BUSINESSMEN TO DISCUSS THESE PROBLEMS AND ISSUES AND THE AMBASSADOR HAS HOSTED ROUND-TABLE LUNCHEON DISCUSSIONS WITH THE BUSINESS COMMUNITY ON A QUARTERLY SCHEDULE.

B. COMMERCIAL: APART FROM REGULAR COMMERCIAL SERVICES, SUCH AS WTDR, ADS, ETC., COMMERCIAL TARGETS ARE FOCUSED ON ANY MAJOR CAPITAL INVESTMENT PROJECTS FOR WHICH U.S. INDUSTRY MIGHT COMPETE. A RECENT EXAMPLE IS A PLANNED ROLLING MILL EXPANSION OF ARBED, THE COUNTRY'S MAJOR STEEL PRODUCER. REGRETABLELY, THE INITIAL RESPONSE BY U.S. INDUSTRY TO THIS OPPORTUNITY WAS NEGATIVE. THE PROJECT HAS BEEN POSTPONED, HOWEVER, AND MAY YET OFFER POTENTIAL SALES TO U.S. INDUSTRIES, WHICH ARE BEGINNING TO SHOW MORE INTEREST. OTHER POSSIBLE SALES COULD OCCUR FROM AN IRON ORE SLURRY LINE FROM THE BELGIAN COAST FOR WHICH AN AMERICAN FIRM IS PREPARING A FEASIBILITY STUDY. IN FEBRUARY THE EMBASSY CO-SPONSORED A PROMOTION OF AMERICAN CONSUMER GOODS, PRIMARILY FOOD, DRINK AND CLOTHING, AT LUXEMBOURG'S LARGEST SHOPPING CENTER DURING AN "AMERICAN FORTNIGHT." RESULTS WERE VERY ENCOURAGING AND OTHER SHOPPING CENTERS AND STORES IN LUXEMBOURG HAVE EXPRESSED AN INTEREST IN SIMILAR PROMOTIONS THIS YEAR.

C. BANKING: THE BANKING SECTOR IS LUXEMBOURG'S LEADING GROWTH INDUSTRY, AND THE GOL'S SECOND LARGEST SOURCE OF TAX REVENUES. SINCE ITS EXPANSION, THE GOL

BANKING COMMISSION IS EXERCISING GREATER SUPERVISION. AMERICAN BANKS REPORT GOOD RESULTS IN WHAT WAS A BOOM YEAR FOR THE EURO-BOND MARKET. ONE EXCEPTION IS THE INDIANA NATIONAL BANK WHICH WILL SOON CLOSE ITS OPERATION HERE, HAVING FAILED TO CARVE A NICHE FOR ITSELF IN ITS FIRST EFFORT AT AN INTERNATIONAL OFFICE. NO FURTHER ENTRY OF AMERICAN BANKS IS EXPECTED HERE. IN FACT, WITH HIGHER CAPITAL REQUIREMENTS AND STANDARDS SET BY THE BANKING COMMISSION, IT IS UNLIKELY THAT THE TOTAL NUMBER OF BANKS WILL INCREASE IN THE NEXT FEW YEARS. AN UPGRADING PROCESS MAY SUBSTITUTE ADDITIONAL
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BIG NAME BANKS FOR SOME OF THE LESS ACTIVE OPERATIONS. U.S. CONTROLLER OF THE CURRENCY JAMES SMITH VISITED LUXEMBOURG IN MID-JANUARY 1976 AND EMPHASIZED THE IMPORTANCE OF GOOD COMMUNICATION AMONG BANKING AUTHORITIES. THE EMBASSY MAINTAINS CLOSE CONTACT WITH THE BANKERS AND THE AMBASSADOR HOSTED QUARTERLY WORKING LUNCHEES WITH THEM TO DISCUSS PROSPECTS AND PROBLEMS.

11. PUBLIC AFFAIRS

A. MEDIA: THE EMBASSY TOOK ADVANTAGE OF THORN'S PRESENCE IN NEW YORK TO OFFER THREE PARTIAL IVP GRANTS TO LUXEMBOURG JOURNALISTS TRAVELING TO NEW YORK TO COVER THE OPENING OF THE UNGA. WITH SPLENDID COOPERATION FROM CU, A 2-WEEK TOUR OF THE UNITED STATES WAS THUS ORGANIZED FOR AN IMPORTANT JOURNALIST FROM EACH OF THE MAJOR NEWSPAPERS. ALL THREE WROTE INTERESTING AND FOR THE MOST PART COMPLIMENTARY ARTICLES BASED ON THEIR EXPERIENCES.

B. CULTURAL: BY USING THE EMBASSY'S LIMITED CULTURAL AFFAIRS BUDGET TO PRIME THE PUMP OF COMMERCIAL AND INSTITUTIONAL CO-SPONSORSHIP, THE EMBASSY WAS ABLE TO ORGANIZE SEVERAL SUCCESSFUL CULTURAL PRESENTATIONS IN COOPERATION WITH THE MIAMI UNIVERSITY LIBRARY, THE AMERICAN BUSINESS COMMUNITY, THE AMERICAN AIR FORCE BASE AT BITBURG, GERMANY, AND THE AMERICAN WOMEN'S CLUB OF LUXEMBOURG. THESE INCLUDED AN EXHIBITION OF THE WORKS OF A PROMINENT AMERICAN ARTIST LIVING IN PARIS; A CHRISTMAS PRODUCTION IN LUXEMBOURG'S NATIONAL CATHEDRAL OF HANDEL'S MESSIAH; A RECITAL BY AMERICAN GUITARIST CHARLIE BYRD, WHICH WAS TAPED AND GIVEN PRIME-TIME TELEVISION EXPOSURE BY RADIO-TELEVISION LUXEMBOURG; A NUMBER OF ARTISTIC AND MUSICAL EVENTS IN CONNECTION WITH THE "AMERICAN FORTNIGHT" MENTIONED ABOVE, AND SEVERAL YOUTH PROGRAM SEMINARS ORGANIZED BY THE

AMBASSADOR ON TOPICS OF CURRENT INTEREST INCLUDING SUICIDE AND
MENTAL HEALTH. USIS PUBLICATIONS IN FRENCH AND
ENGLISH ARE SENT TO A WIDE VARIETY OF INDIVIDUAL
CONTACTS. WHILE THE EMBASSY SHOULD NOT BE DRAWN INTO
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ATTEMPTING TO MOUNT A CULTURAL PROGRAM COMMENSURATE WITH THOSE OF THE SOVIET, FRENCH OR GERMAN EMBASSIES HERE WITHOUT A USIS OFFICER AND PROGRAM, IT SHOULD CONTINUE TO MAKE MAXIMUM USE OF ITS SMALL RESOURCES AND LIMITED STAFF TIME BY CLOSE COOPERATION WITH THE CO-SPONSORING INSTITUTIONS MENTIONED ABOVE.

12. CONSULAR AFFAIRS

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AFTER A PERIOD OF SHARP INCREASE, THE EMBASSY'S CONSULAR WORKLOAD LEVELED OFF IN 1975, NOT LEAST BECAUSE OF THE SUCCESSFUL RESOLUTION OF TWO PROBLEM AREAS--AN UNRELIABLE STUDENT EMPLOYMENT AGENCY LOCATED IN LUXEMBOURG AND A SURGE OF THIRD-COUNTRY NIV APPLICANTS CAUSED BY A LOOPHOLE IN VISA AND TRWOV REGULATIONS CONCERNING A LUXEMBOURG-BASED AIRLINE--IDENTIFIED IN THE PREVIOUS ASSESSMENT AS GENERATING SIGNIFICANT DESTITUTE ASSISTANCE AND VISA WORK-LOADS. THE SMALLER INCREASE UNDOUBTEDLY ALSO REFLECTED A WORLDWIDE DECLINE IN TRAVEL DURING THE ECONOMIC RECESSION. FOLLOWING A SUGGESTION IN ITS INSPECTION REPORT OF FEBRUARY 1976, THE CONSULAR SECTION WILL SOON BE OPEN TO THE PUBLIC FROM 10:00 A.M. TO 12:30 P.M. AND FROM 1:30 P.M. TO 3:00 P.M. RATHER THAN ALL DAY. THIS WILL CONCENTRATE WORKLOADS, ALLOW TIME FOR CONSULAR ADMINISTRATIVE WORK, AND PERMIT THE POST TO CONTINUE OPERATING WITH ONLY ONE HALF-TIME CONSULAR OFFICER AND ONE AND ONE-HALF LOCAL STAFF POSITIONS.

13. OTHER INTERESTS AND OBJECTIVES: IN ORDER TO BOLSTER LUXEMBOURG'S ABILITY TO DEAL WITH ILLICIT NARCOTICS TRAFFIC, THE EMBASSY WILL COORDINATE PRESENTATION OF AN IN-COUNTRY TRAINING COURSE IN SMUGGLING DETECTION TECHNIQUES TO BE GIVEN BY THE U.S. CUSTOMS SERVICE TO LUXEMBOURG CUSTOMS OFFICIALS IN THE SPRING OF THE YEAR. WE WILL CONTINUE TO LOBBY FOR STIFFER GOL RESOLVE IN INTERDICTING THIS TRAFFIC WHILE OFFERING SUCH COURSES AS A MEANS OF INCREASING ACTUAL CAPABILITY. PART III: FUTURE TRENDS, EMBASSY RECOMMENDATIONS AND RESOURCES

14. POLITICAL

A. RELATIONS WITH THORN:THE NEXT LEGISLATIVE ELECTIONS ARE SCHEDULED FOR 1979 AND BARRING A SEVERE WORSENING OF THE CURRENT ECONOMIC CRISIS, THE DEMOCRATIC-SOCIALIST COALITION IS LIKELY TO STAY IN OFFICE FOR THE FORESEEABLE FUTURE. ALMOST CERTAINLY OVER THE

NEXT TWELVE TO EIGHTEEN MONTHS, THORN WILL BE THE
MAN WITH WHOM WE WILL BE DEALING. HE PERSONALLY AND
ALMOST SINGLE-HANDEDLY SETS LUXEMBOURG'S FOREIGN POLICY
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COURSE ON ALL MAJOR ISSUES. MOREOVER, HIS INTER-
NATIONAL ACTIVITIES OVER THE PAST YEAR HAVE PUT HIM
WITH THE EXCEPTION OF FORMER PRIME MINISTER PIERRE
WERNER. WE SHOULD CONTINUE, THEREFORE, TO WORK AS
CLOSELY AS POSSIBLE WITH THORN, TO DEMONSTRATE THAT THE UNITED
STATES RESPECTS HIM AS A EUROPEAN AND INTERNATIONAL LEADER
AND THAT WE APPRECIATE HIS FRIENDSHIP AND ADVICE. IN ADDITION
TO THE NORMAL CONTACT BETWEEN THORN AND THE AMBASSADOR AND
THE NORMAL ENCOUNTERS BETWEEN THORN AND AMERICAN OFFICIALS
AT THE UNITED NATIONS, NATO, AND OTHER INTERNATIONAL BODIES,
THE EMBASSY RECOMMENDS A VISIT TO LUXEMBOURG DURING THE COMING
YEAR BY EITHER THE PRESIDENT OR SECRETARY OF STATE. SUCH A
VISIT COULD, OF COURSE, BE PART OF A WIDER SWING THROUGH
WESTERN EUROPE, BUT IT SHOULD BE SOMETHING MORE THAN A BRIEF
STOPOVER. A ONE OR TWO DAY OFFICIAL VISIT WITH FULL MEDIA
COVERAGE WOULD PAY HANDSOME DIVIDENDS. THE EMBASSY ALSO
RECOMMENDS THAT OTHER HIGH RANKING AMERICAN OFFICIALS
VISITING EUROPE STOP OVER HERE WHENEVER POSSIBLE. WE HAVE
PROPOSED AND EXCHANGE OF VISITS BETWEEN JUSTICES OF THE
U. S. S. SUPREME COURT AND THE EUROPEAN COURT OF JUSTICE
WHICH WOULD NATURALLY INCLUDE BILATERAL CONTACTS. WE
HOPE THE DEPARTMENT WILL SUPPORT THIS PROPOSAL.

B. OTHER: AS PART OF THE GOVERNMENT AND AS ACTIVE MEMBERS
OF EUROPEAN AND INTERNATIONAL SOCIALIST ORGANIZATIONS,
THE SOCIALISTS HAVE AN IMPORTANT IMPACT ON U. S. INTERESTS.
THE EMBASSY PROPOSES TO CONTINUE TO DEVELOP CLOSE RELATIONS
WITH TOP SOCIALIST LEADERS, TO TAKE ADVANTAGE OF OCCASIONS
WHEN SOCIALIST AND RANKING AMERICAN OFFICIALS CAN BE BROUGHT
TOGETHER, AND TO OFFER INTERNATIONAL VISITOR GRANTS
TO SEVERAL OF THE YOUNG, UPCOMING PARTY AND TRADE UNION LEADERS
DURING THE COMING TWO YEARS. SHOULD THE PRESENT COALITION
SPLIT, IT WOULD MOST LIKELY BE REPLACED BY A CHRISTIAN
SOCIAL-SOCIALIST COALITION. THIS IS TRUE IN SPITE OF CLOSER
IDEOLOGICAL TIES BETWEEN SOCIALISTS AND DEMOCRATS. THE FACT
IS THAT NEITHER WERNER OR THORN WOULD BE LIKELY TO ACCEPT
ANYTHING BUT FIRST PLACE IN ANY GOVERNMENT, WHEREAS THE
SOCIALISTS HAVE NO PROBLEM IN ACCEPTING SECOND PLACE. THE
EMBASSY, THEREFORE, INTENDS TO CONTINUE TO MAINTAIN CLOSE
CONTACT WITH WERNER AND HIS COLLEAGUES, BOTH BECAUSE WERNER
IS AN INTELLIGENT, ATLANTIC-MINDED EUROPEAN LEADER AND
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BECAUSE HE COULD CONCEIVABLY REPLACE THORN AS PPPRIME
MINISTER BEFORE 1979.

15. FOREIGN POLICY

A. UNITED NATIONS: ONCE THORN HAS COMPLETED HIS STINT
AS UNGA PRESIDENT, LUNEXBOURG'S PARTICIPATION AND INTEREST

IN THE UN IS NOT LIKELY TO REVERT TO THAT OF ITS FORMER
POSITION AS A MINISCULE UN MEMBER STATE. DUE TO THORN'S
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UNGA PRESIDENCY, LUXEMBOURG HAS ACHIEVED MORE STATURE WHICH
HER STATESMEN WILL STRIVE TO MAINTAIN. NONETHELESS, AS
REPORTED IN LUXEMBOURG'S 0109, THORN HAS TAKEN A STRONG
PERSONAL INTEREST IN IMPROVING CONSULTATIONS AND
COORDINATION AMONG WESTERN INDUSTRIALIZED NATIONS ON UN
ISSUS. BECAUSE OF HIS UN EXPERIENCE AND BECAUSE OF
HIS LEVERAGE WITHIN THE EEC, THE EMBASSY BELIEVES THORN
CAN PLAY A USEFUL AND PERHAPS CATALYTIC ROLE IN THIS
RESPECT. WE RECOMMEND THAT THE DEPARTMENT CONSIDER A
HIGH-LEVEL APPROACH TO THORN TO TAKE FURTHER SOUNDINGS OF
HIS IDEAS AND PROPOSALS ON UN COORDINATION.

B. EEC: WHEN LUXEMBOURG'S SIX MONTH EEC PRESIDENCY
ENDS IN JULY 1976, LUXEMBOURG'S ROLE IN COMMUNITY
ACTIVITIES WILL RETURN TO NORMAL. THORN'S PERSONAL
INFLUENCE WITHIN THE COMMUNITY, HOWEVER, WILL BE HIGHER
THAN EVER IF HE CONTINUES HIS SO FAR IMPRESSIVE HANDLING
OF THE PRESIDENCY. DURING THE PRESIDENCY, WE HAVE
ESTABLISHED AN EXCELLENT PATTERN OF CONSULTATIONS WHICH
SHOULD BE SUSTAINED. THE EMBASSY RECOMMENDS THAT THE
DEPARTMENT CONTINUE TO USE CONSULTATIONS WITH THORN AS AN
AVENUE FOR FRANK, IN DEPTH EXCHANGES ON U.S.-COMMUNITY
RELATIONS AND ISSUES OF MUTUAL INTEREST.

16. SECURITY

A. DEFENSE SPENDING: BECAUSE OF THE CURRENT ECONOMIC
CRISIS, LUXEMBOURG WILL PROBABLY NOT DEVOTE A LARGER
SHARE OF ITS BUDGET TO DEFENSE THIS YEAR OR NEXT. NONETHELESS,
WE WILL CONTINUE TO PRESS THE GOL TO MAKE A GREATER DEFENSE
CONTRIBUTION IN GENERAL AND TO PROVIDE AT LEAST TOKEN
FINANCIAL SUPPORT FOR AWACS IN PARTICULAR. AS IN THE EEC
CONTEXT, WE BELIEVE IT WOULD BE WISE TO CONSULT FREQUENTLY
WITH THORN AND ATTEMPT TO ENLIST HIS SUPPORT FOR NATO PROJECTS
AND PROGRAMS. THE EMBASSY ALSO RECOMMENDS THAT THE DOD
INVITE LUXEMBOURG MILITARY LEADERS TO THE UNITED STATES
FOR TOURS AND BRIEFINGS ON APPROPRIATE OCCASIONS.

B. INTELLIGENCE SERVICE: OUR LATEST INFORMATION IS THAT
THE NATIONAL ASSEMBLY WILL ADOPT THE THORN GOVERNMENT'S
PROJECT TO REVAMP LUXEMBOURG'S INTELLIGENCE SERVICE AND
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PROVIDE IT WITH A NEW LEGAL FRAMEWORK. THE EMBASSY CONTINUES TO URGE THORN AND OTHER GOL OFFICIALS TO STAFF THE SERVICE WITH THE BEST AVAILABLE PERSONNEL AND TO PERMIT IT TO MAKE THE GREATEST POSSIBLE CONTRIBUTION TO NATO OBJECTIVES IN LUXEMBOURG. WE RECOMMEND THAT DEPARTMENT OFFICES AND OTHER GOVERNMENT OFFICIALS IMPRESS ON THEIR LUXEMBOURG COUNTERPARTS IN WASHINGTON, NATO AND ELSEWHERE THE CONTINUING IMPORTANCE WE ATTACH TO AN EFFECTIVE SERVICE.

17. ECONOMIC

A. GENERAL: WITH MORE THAN 80 PERCENT OF ITS GNP INVOLVED IN FOREIGN TRADE, LUXEMBOURG IS ESPECIALLY VULNERABLE TO ECONOMIC CONDITIONS IN NEIGHBORING COMMON MARKET COUNTRIES. MORE THAN ONE-THIRD OF ITS TRADE IS WITH WEST GERMANY AND AN EQUAL AMOUNT IS WITH BELGIUM AND FRANCE. LUXEMBOURG ENTERED THE 1974-75 SLUMP LATER THAN MOST EEC MEMBERS AND WILL UNDOUBTEDLY EXPERIENCE A LAG OF SEVERAL MONTHS AFTER THE FRG IN PULLING OUT OF IT. DESPITE SUCCESSFUL EFFORTS BY THE GOL TO DIVERSIFY THE COUNTRY'S INDUSTRIAL BASE, STEEL REMAINS THE VITAL BACKBONE OF THE ECONOMY. LUXEMBOURG'S STEEL INDUSTRY ALREADY HAS ONE OF THE HIGHEST INVESTMENT RATIOS AND ITS COMPETITIVENESS DEPENDS ON MAINTAINING HIGH EFFICIENCY. IT HAS ENJOYED OUTSTANDING MANAGEMENT IN THE PAST. ENSURING LONG-TERM ECONOMIC VIABILITY, FOR WHAT IS AN INLAND STEEL COMPLEX WILL OBVIOUSLY BE A CONTINUING CHALLENGE TO MANAGEMENT AS MODERN COASTAL STEEL CAPACITY COMES ON STREAM IN OTHER COUNTRIES.

B. U. S. INVESTMENT: THE GOL BASICALLY FAVORS FOREIGN INVESTMENT, AT LEAST THAT OF A CAPITAL INTENSIVE NATURE. PRIOR TO THE 1975 RECESSION, THERE WAS EVIDENCE THAT LOCAL INVESTMENT OPPORTUNITIES WERE APPROACHING THE SATURATION POINT GIVEN LUXEMBOURG'S CHRONIC LABOR SHORTAGE EVEN WITH LARGE-SCALE FOREIGN EMPLOYMENT. THUS, THERE IS UNLIKELY TO BE SCOPE FOR ADDITIONAL LARGE INVESTMENTS HERE BY NEW MULTINATIONALS. HOWEVER, THE GOL IS ONCE AGAIN RECEPTIVE TO SMALL AND MEDIUM-SIZED INVESTMENTS AS WELL AS EXPANSION OF THE FIRMS ALREADY ESTABLISHED HERE. MOREOVER, IN 1976 THE GOL MAY BE FORCED INTO LONGER RANGE PLANNING FOR DIVERSIFICATION SHOULD PROSPECTS FOR STEEL REMAIN DIM.
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SO FAR THERE IS LITTLE SOLID EVIDENCE THAT THE STEEL INDUSTRY CRISIS HAS BOTTOMED OUT HERE. WORKERS HAVE BEEN PROTECTED THROUGH GOVERNMENT SUBSIDIZED PUBLIC WORKS PROGRAMS, BUT IT IS UNLIKELY THAT THE GOVERNMENT WILL BE ABLE TO CONTINUE THESE EXPENDITURES FOR THE INDEFINITE FUTURE. IN THIS SITUATION THE EMBASSY WILL REMAIN ALERT TO INVESTMENT POSSIBILITIES IN LUXEMBOURG.

C. TRADE AND INTERNATIONAL ECONOMIC RELATIONS: THE GOL WAS
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ONE OF THE EEC MEMBERS STATES TO SUPPORT A MINIMUM STEEL PRICE. ALTHOUGH THIS PROPOSAL MAY NEVER BE ACTED UPON BY THE EEC, IT REVEALS SENSITIVITY HERE TO TRADE IN THIS VITAL COMMODITY. LUXEMBOURG IS BASICALLY FREE TRADE ORIENTED BUT OBVIOUSLY CANNOT IGNORE ITS VITAL SELF-INTERESTS NOR THOSE OF ITS EEC PARTNERS. A RECENT CASE IN POINT IS THE PROPOSED EEC SUBSTITUTION OF NON-FAT DRY MILK FOR SOYA PRODUCTS IN ANIMAL FEEDS. ON THIS ISSUE THE GOL FELT OBLIGED TO SUPPORT A SOLUTION TO THE EEC DAIRY PROBLEM DESPITE U.S. PROTESTS. LUXEMBOURGERS ARE INCREASINGLY AWARE THAT THEIR SOCIAL BENEFIT SYSTEMS--AND THE TAX STRUCTURES NEEDED TO SUPPORT THEM--MAY ACT AS DRAGS ON THE ECONOMY AND POSE POTENTIAL THREATS TO LUXEMBOURG'S COMPETITIVENESS. NONETHELESS, OUTSIDE FACTORS ARE EASIER TO ISOLATE AND CRITICIZE, AND THERE IS A TENDENCY HERE TO LOOK TOWARDS THE U.S. ECONOMY, AS WELL AS GERMANY'S, FOR CAUSE OR SOLUTION OF EUROPEAN ECONOMIC PROBLEMS. IF WE ARE TO ASSURE LUXEMBOURG'S CONTINUING SUPPORT FOR FREE TRADE, THE USG MUST BE SENSITIVE TO ACCUSATIONS OF PROTECTIONISM AT HOME. THE EMBASSY'S RECOMMENDATION FOR HANDLING THE SENSITIVE AND COMPLICATED PROBLEMS OF TRADE RELATIONS IS SIMPLY THAT THE DEPARTMENT CONTINUE TO PROVIDE MATERIAL SO THAT WE CAN GIVE THE GOL WELL REASONED U.S. POSITIONS ON A TIMELY BASIS. AS INDICATED ABOVE, IT WILL BE PARTICULARLY IMPORTANT DURING THE EEC PRESIDENCY TO CONSULT CLOSELY WITH THE GOL ON ECONOMIC ISSUES IN INTERNATIONAL FORA. EVEN AFTER THE PRESIDENCY, THE EMBASSY FORESEES CONTINUING ACTIVE GOL PARTICIPATION IN THE CIEC AND INTEREST IN THE WHOLE RANGE OF CONSUMER-PRODUCER AND DC-LDC ISSUES, THE MULTI-LATERAL TRADE NEGOTIATIONS IN GENEVA, AND THE EVOLUTION AND EXPANSION OF THE COMMON MARKET INCLUDING EC-COMECON AND EC-LDC RELATIONS.

D. COMMERCIAL: AS MENTIONED ABOVE, THE EMBASSY FORESEES SEVERAL MAJOR CAPITAL INVESTMENT PROJECTS OF INTEREST TO U.S. INDUSTRY DURING THE COMING YEARS. WE RECOMMEND THAT STATE AND COMMERCE URGE U.S. INDUSTRIES TO BID ON THESE PROJECTS IN ORDER TO ESTABLISH A SOLID SUPPLIER RELATIONSHIP WITH GOL'S MAJOR INDUSTRIES. THE EMBASSY WILL MAKE EVERY EFFORT TO REPORT SUCH

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OPPORTUNITIES ON A TIMELY BASIS AND TO SUPPORT TRADE PROMOTION ACTIVITIES COMMENSURATE WITH OUR RESOURCES. AN OFFICIAL U.S. PARTICIPATION IN THE LUXEMBOURG INTERNATIONAL FAIR WOULD BE A MAJOR BOOST TO AMERICAN COMMERCIAL ACTIVITIES.

18. PUBLIC AFFAIRS

ALL EVIDENCE INDICATES THAT THE SOVIET EMBASSY WILL CONTINUE TO SPONSOR AN ACTIVE, HIGH QUALITY CULTURAL PROGRAM IN LUXEMBOURG DURING THE COMING YEAR. RECENT CONVERSATIONS WITH THE MANAGING DIRECTOR OF RADIO TELEVISION LUXEMBOURG INDICATE THAT THE SOVIETS ARE PRESSING HARD FOR GREATER TELEVISION AND RADIO EXPOSURE FOR SOVIET CULTURAL MATERIAL. PRESENTLY, THE EMBASSY HAS A WOEFULLY INADEQUATE CULTURAL BUDGET OF \$550 PER YEAR, CONTRIBUTED BY USIS PARIS. THE EMBASSY ENJOYS EXCELLENT SUPPORT FROM USIS PARIS BUT NEEDS GREATER RESOURCES TO LAUNCH MORE THAN A TOKEN CULTURAL PROGRAM, PARTICULARLY IN THIS BICENTENNIAL YEAR. THANKS TO AN AGREEMENT BETWEEN THE USIA AND THE MIAMI UNIVERSITY EUROPEAN EXTENSION, THE EMBASSY DOES HAVE SOME ACCESS TO THE MIAMI UNIVERSITY LIBRARY FOR CULTURAL PRESENTATION . WITHOUT AN ADEQUATE BUDGET TO FUND INTERESTING PROGRAMS AND PROJECTS, HOWEVER, IT IS DIFFICULT TO USE THE FACILITIES AT HAND TO OPTIMUM BENEFIT. THE EMBASSY RECOMMENDS THAT A SEPARATE CULTURAL BUDGET BE ESTABLISHED FOR LUXEMBOURG, SUFFICIENT TO PERMIT AT LEAST TWO MAJOR, HIGH QUALITY PRESENTATIONS A YEAR AND A HALF DOZEN OR SO MINOR PROJECTS SUCH AS LECTURES, TRAVELING EXHIBITS OF AMERICAN ART, ETC. WITH THIS AS A BASIS, AND CONTINUING TO RELY ON COOPERATION FROM AMERICAN ARMED FORCES IN GERMANY, THE AMERICAN

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BUSINESS COMMUNITY AND THE GOOD WILL OF RADIO-TELEVISION
LUXEMBOURG AND OTHER LUXEMBOURG MEDIA, THE EMBASSY WILL
BE ABLE TO ACHIEVE U.S. CULTURAL OBJECTIVES IN LUXEMBOURG.
IN REGARD TO INTERNATIONAL VISITORS, THE EMBASSY IS
CURRENTLY ALLOTTED ONE IVP GRANT PER YEAR. CU HAS SHOWN
GRATIFYING FLEXIBILITY IN PROVIDING ADDITIONAL FUNDS
FOR PARTIAL GRANTS DURING THE PAST YEAR. BUT GIVEN OUR
POLITICAL OBJECTIVES VIS-A-VIS THE SOCIALISTS AND THE
INCREASINGLY IMPORTANT ROLE LUXEMBOURGERS PLAY IN
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INTERNATIONAL ORGANIZATIONS, THE EMBASSY RECOMMENDS
THAT LUXEMBOURG BE ALLOTTED TWO FULL IVP GRANTS PER YEAR.

19. OTHER INTERESTS

IN RESPECT TO THE OTHER INTERESTS DISCUSSED IN
SECTION I, PARAGRAPH SIX, THE CUSTOMS TRAINING PROGRAM
ON NARCOTICS SMUGGLING IS A GOOD FIRST STEP TOWARDS
BOLSTERING LUXEMBOURG'S ABILITY TO INTERDICT TRAFFIC
IN ILLICIT DRUGS. THE EMBASSY RECOMMENDS THAT WE
FOLLOW THE TRAINING PROGRAM WITH ADDITIONAL NARCOTICS
PROGRAMS; FOR EXAMPLE, A VISIT AND DEMONSTRATIONS OF
DRUG-DETECTING DOGS AND HANDLERS. WE ALSO SUGGEST
THAT THE DEPARTMENT EXAMINE THE POSSIBILITY OF
ESTABLISHING A PROGRAM TO TRAIN LUXEMBOURG POLICE
FORCES IN CURRENT ANTI-TERRORIST TECHNIQUES.
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